

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: EFIN, EGEN, GT
SUBJ: CENTRAL AMERICAN COMMON MARKET INVESTMENT CODE

REF: MATTHEWS/SHULER TELECON ON 1-11-78

1. AN INVESTMENT CODE IS CONTEMPLATED IN THE PROPOSED TREATY FOR THE CREATION OF A CENTRAL AMERICAN ECONOMIC AND SOCIAL COMMUNITY. THIS PROPOSED TREATY IS NOT UNDER ACTIVE CONSIDERATION IN CENTRAL AMERICA AT THE PRESENT TIME. ITS ARTICLES 256 TO 259 STATE SEVERAL PRINCIPLES WHICH WOULD BE GUIDELINES FOR AN INVESTMENT CODE. HOWEVER, THE SPECIFICS OF SUCH A CODE ARE TO BE DRAFTED BY A COMMISSION AND APPROVED BY THE COUNCIL WITHIN SIX MONTHS OF ENTRY INTO FORCE OF THE PROPOSED TREATY. THEREFORE, THE CENTRAL AMERICAN COUNTRIES DO NOT HAVE AN INVESTMENT CODE AND IT IS UNLIKELY THAT THEY WILL IN THE IMMEDIATE FUTURE.

2. THERE IS, HOWEVER, A CONVENTION ON FISCAL INCENTIVES WHICH DATES FROM JULY 31, 1962. THE CENTRAL AMERICAN AGREEMENT ON EQUALIZATION OF FISCAL INCENTIVES WAS INITIALED FOR FURTHER EXTENSION IN 1977. THIS CONVENTION SETS LIMITS ON TARIFF AND TAX CONCESSIONS TO BE GRANTED BY THE NATIONAL GOVERNMENTS. THE CONVENTION LIMITS EXEMPTIONS FROM IMPORT DUTY AND FROM TAXES AND OTHER CONCESSIONS WHICH THE GOVERNMENTS MAY GRANT AS INCENTIVES FOR INVESTMENT IN INDUSTRY. IT
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ESTABLISHES VARIOUS GROUPS AND CLASSIFICATIONS FOR PREFERENTIAL INVESTMENT TREATMENT. WHILE IT CONTAINS SOME ELEMENTS THAT AN INVESTMENT CODE WOULD INCLUDE, IT WAS DEVELOPED OSTENSIVELY TO LIMIT COMPETITION FOR NEW INVESTMENT AMONG THE SEVERAL GOVERNMENTS. IN PRACTICE, IT HAS BECOME THE MODE BY WHICH MANY INDUSTRIAL ENTERPRISES SEEK TO LOWER THEIR IMPORT COSTS BELOW THE NORMALLY HIGH PROTECTIVE TARIFF

LEVELS.

3. A DISCUSSION OF THE INCENTIVES IS CONTAINED IN "GENERAL PRECEPTS FOR DOING BUSINESS IN GUATEMALA" PREPARED BY PRAUN AND REYES CORRESPONDENTS OF PEAT, MARWICK, MITCHELL AND CO., 1976, AND IN "DOING BUSINESS IN CENTRAL AMERICA" PREPARED BY PRICE WATERHOUSE, DEC. 1976.

4. OTHER FISCAL INCENTIVE PROGRAMS EXIST COUNTRY-BY-COUNTRY FOR POTENTIAL INVESTORS IN THE FORM OF DRAWBACK LAWS, SPECIAL TAX TREATMENT FOR SPECIFIC INVESTMENTS, AND OTHERS. GIVEN THE DIVERSITY OF ECONOMIC CONDITIONS COUNTRY-BY-COUNTRY AND THE DUBIOUS EFFECT OF INVESTMENT CODES SUCH AS IN THE ANDIAN GROUP, IT IS NOT LIKELY THAT A FULL BLOWN INVESTMENT CODE WILL BE ACCEPTED IN CENTRAL AMERICA IN NEAR FUTURE.

5. THE GENERAL "PRECEPTS" AND "DOING BUSINESS" REFERENCES HAVE BEEN FORWARDED TO ARA/CEN BY POUCH.
BOSTER

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NNN

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